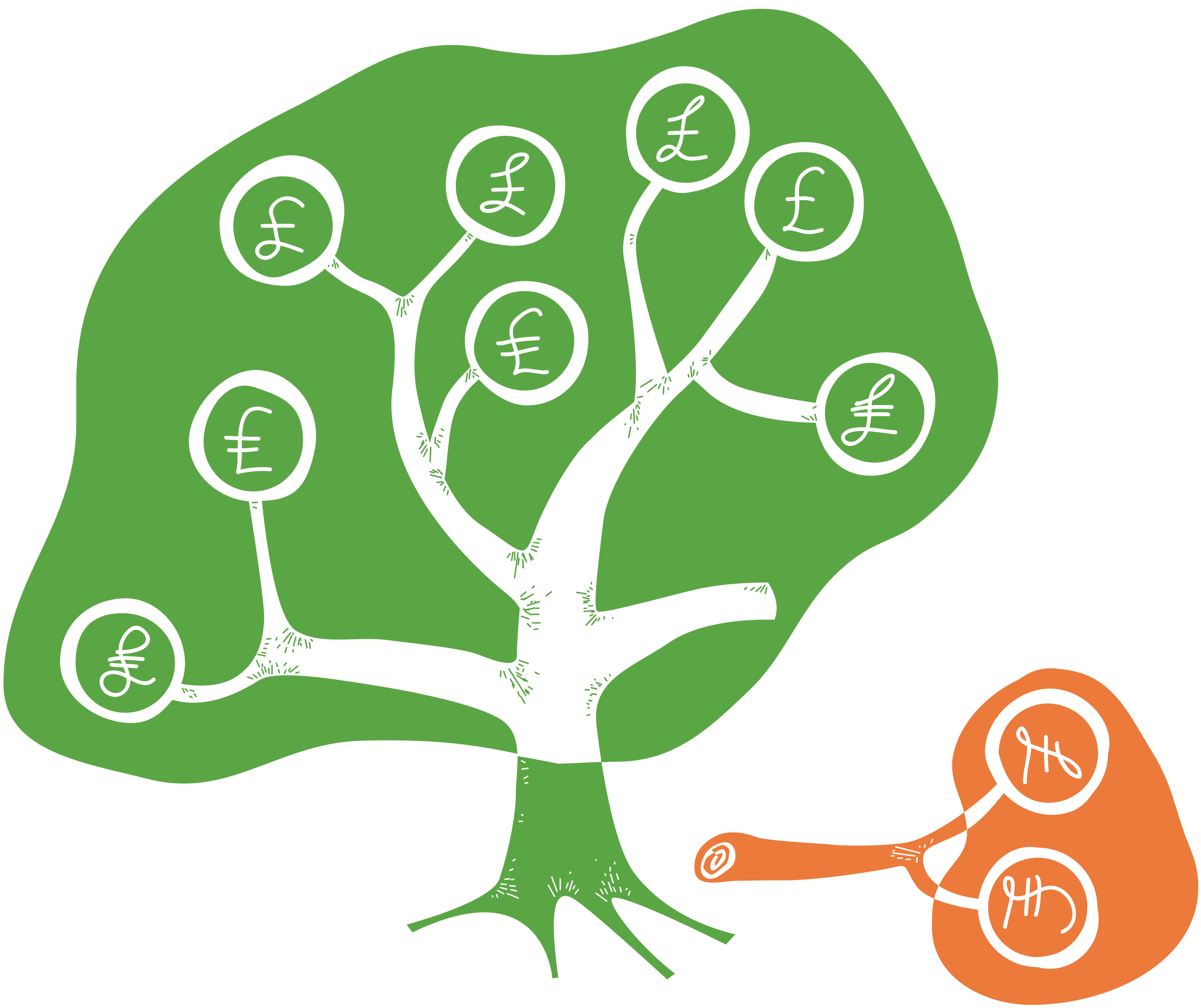
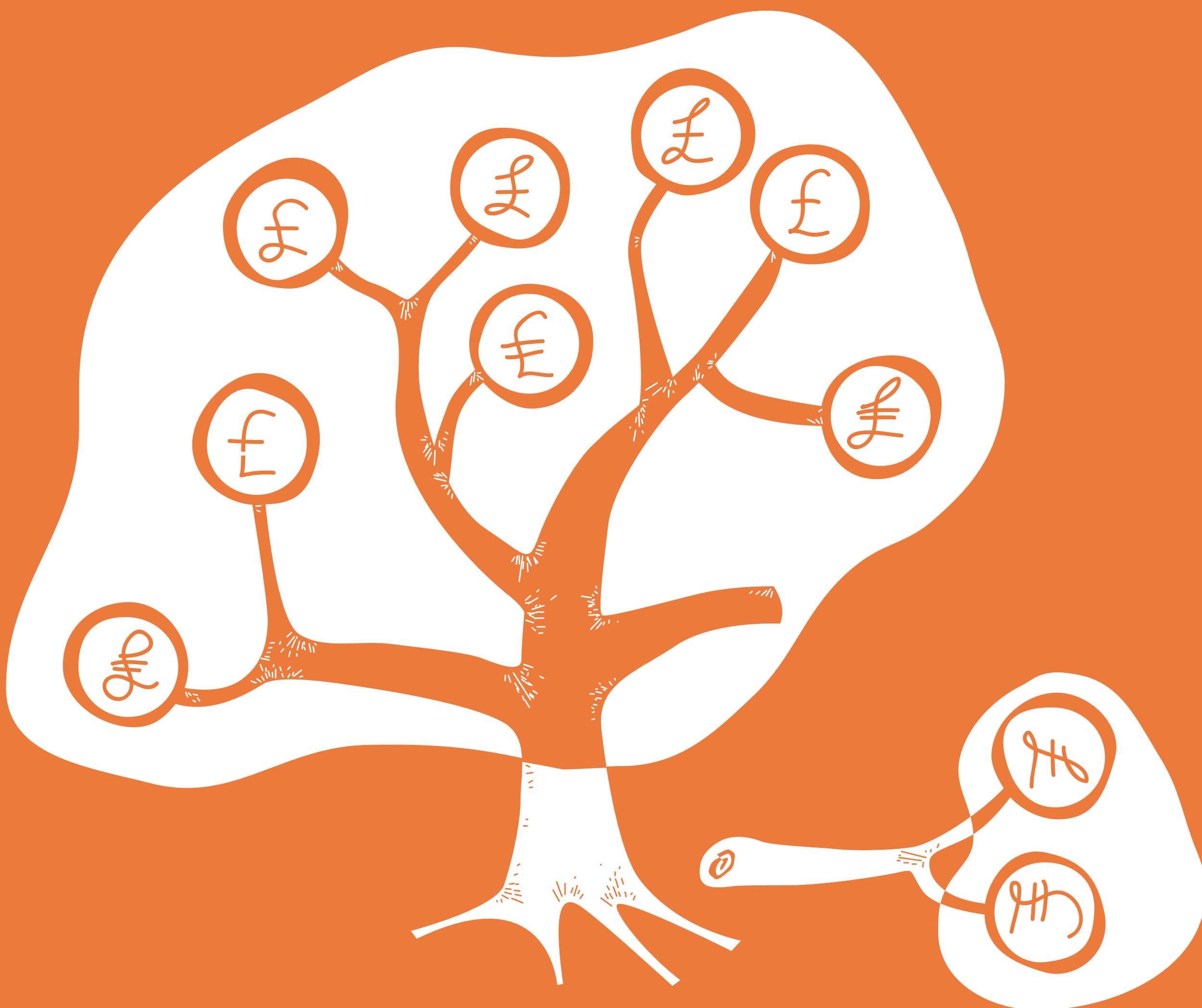
All change: why welfare reform should matter to creditors and utility companies





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Summary

The welfare system in the UK is currently undergoing its most significant reform since the Beveridge reforms of the 1940s. Many of the in and out of work benefits on which people currently rely for their income are being rolled into one universal credit, due to be rolled out across the country by 2017. Meanwhile changes to other benefits, such as council tax benefit and disability living allowance, have already begun to have an impact.

Welfare reform is a complex area and creditors have told us that they are struggling to grasp the scale of the reforms and the likely impact on their customers and their business. This report seeks to demystify welfare reform for creditors and utility companies and highlight the impacts of the changes that have already been made and those which are yet to come, on customers and their ability to meet their financial commitments.

We believe that welfare reform is likely to have two key impacts on claimants which are of particular relevance to creditors. Firstly, many claimants will experience a drop in their monthly income. At a time when the cost of living is rising, this will mean that an increasing number of customers will find themselves unable to meet their financial commitments. As a result, some customers who are currently just managing to make ends meet will find themselves falling into financial difficulty.

Those who are already in financial difficulty may find themselves unable to maintain agreed repayment arrangements and will therefore need to reassess and renegotiate their financial commitments.

Secondly, some claimants may struggle to adapt to changes in the way their benefits are paid and as a result they may fail to budget as effectively as in the past.
For example, we are concerned that many of our debt clients will struggle to adapt to budgeting on a monthly – rather than weekly or fortnightly – basis when universal credit is introduced and paid in one monthly sum.

It is important to note that some people will simply need their creditors to give them time, breathing space and support to adjust to their altered circumstances. Others will need longer, more intensive support or may even find that they are unlikely to be able to make repayments to their creditors at all for the foreseeable future. Creditors should therefore take a flexible

approach and take into account the unique circumstances of each customer.

It is essential that the significant progress made by creditors across the sector in improving debt collection practices is not lost in the wake of welfare reform. The scale of the change and the potential impacts on people can be daunting, but there are practical steps that creditors can take to help support their customers through the transition period. The final section of the report outlines some of the practical steps which we believe creditors should consider taking in order to help their customers to avoid financial crisis during the transition and beyond.

In particular, it is vital that creditors and utility companies set the right culture among their staff, and encourage them to take the time to understand their customers' circumstances. Our advisers already report that clients are increasingly embarrassed about talking about their benefits and are keen to point out that they are not 'scroungers'. If creditors wish to encourage their customers to engage with them at an early stage, it is vital that customers are treated sympathetically and with respect when they take steps to address their financial situation.

It is also important that creditors are proactive in looking out for signs of potential financial difficulty and offering support accordingly. Forbearance and breathing space from their creditors will help customers who are having to adapt to a reduced income or a change in the way that their benefits are paid to avoid reaching breaking point.

Whilst many of their customers have complex lives and needs, we know that it is neither feasible nor desirable for creditors to seek to address all of these needs by themselves. Creditors can, however, set up simple, easy to use referral processes so that they can signpost their customers on for additional support where appropriate. Taking a more holistic approach to dealing with their customers will ultimately help them set up a sustainable repayment arrangement with their business and meet their financial commitments in the longer term.

Introduction

In recent years Citizens Advice has worked closely with a wide range of creditors to improve standards in debt collection and ensure that customers in financial difficulty are treated fairly. Significant progress has been made in these areas across the financial services and utilities sectors and the experience of people who find themselves unable to meet their financial commitments has markedly improved.

For example, creditors and advice agencies worked together to improve creditor and adviser practice in self help debt advice following our 2008 report, *With a little help from my friends.* Following our 2010 report, *Do the right thing*, on best practice in debt collection, we brought together creditors and advice agencies in the Addressing Financial Difficulty Working Group to discuss and promote best practice in dealing with people in financial difficulty. In 2011, the group published a report, *How to do the right thing*, which contained many examples of best practice in supporting people through financial difficulties.

We are concerned that the progress made by companies to improve their approach to customers in financial difficulty is at risk unless creditors and utility companies proactively recognise and understand the impact that the Government's extensive programme of welfare reform may have on their customers and adjust their policies and practices accordingly. Many households will have to adapt to a reduction in already stretched budgets as the Government removes an estimated £22 billion from the welfare budget by 2015.[1] Others will struggle to adapt to the challenging new payment arrangements which accompany the roll-out of universal credit. These same people may also be affected by the changes to disability benefits and/or changes to the conditionality and sanctions regime.[2] We are worried that while people may be able to adapt to many of the reforms in isolation, the cumulative impact of all of the reforms over a number of years could be devastating.

This report sets out to help creditors to understand the scale and impact of welfare reform, those that have already happened and those that are still to come, and provide some practical advice as to how they can best support their customers through the changes.

In producing this report we have drawn upon our extensive experience in helping our clients with their problems with benefits and debt. Benefits and debt are consistently the top two topics about which people visit Citizens

1. *£10 billion in further welfare cuts unacceptable argues Iain Duncan Smith,* Centre for Economic and Social Inclusion, downloaded 29 June 2012. http://www.cesi.org.uk/social-inclusion-news/2012/mar/iain-duncan-smith-welfare-reforms-realised and *Spending review 2013* – the key points, The Guardian, 26 June 2013, downloaded 29 June 2013. http://www.theguardian.com/politics/2013/jun/26/spending-review-2013-the-key-points
2. Conditionality refers to the requirements and conditions placed on claimants in order to receive certain benefits. Sanctions relates to the penalties claimants can incur if they fail to meet these conditions.

Advice Bureaux for advice. In 2012/13 Citizens Advice Bureaux dealt with 6.6 million client problems including 2.4 million about benefits and tax credits and just under two million about debt.

To supplement our understanding of the issues creditors are already encountering and are likely to encounter we conducted nine focus groups with creditors. These were semi-structured discussions about the benefits system and the changes proposed by welfare reform. The participants included frontline staff, supervisors, and senior managers. In addition we reviewed the statistical and qualitative evidence from CAB advice work on debt and benefits.

It is important to note that while this report covers the majority of the most significant features of the welfare reforms – particularly those that have an impact on the business of creditors and utility companies – it is not designed to be a comprehensive guide to the reforms.

The first section of the report sets out why creditors should be interested in welfare reform, focusing on the well established link between debt and benefits.

Section 2 examines some of the impacts Citizens Advice Bureaux are already helping people to cope with.

These include:

- changes to benefits designed to cover essential expenses, such as housing benefit and council tax support
- changes to the conditionality and sanctions regime
- the reduction in income many households will experience as a result of the reforms, including a change to the way in which benefits are uprated each year and the introduction of an overall cap on the amount of benefit a household can receive
- changes to benefits for people who are affected by ill health and/or disability.

Section 3 considers the likely effects of some of the key changes still to come. Here we discuss concerns around:

- the risks presented by the way in which the new universal credit will be paid, including single monthly payments to one member of the household
- changes to the support available for meeting the additional costs of living with a disability as universal credit is rolled out
- making all households responsible for passing on housing benefit payments to their landlords for the first time.

The fourth and final section outlines the steps which we believe creditors should take to maintain high standards in debt collection in the context of welfare reform and help to mitigate any negative impact of the reforms on the finances and lives of their customers.

We are grateful to the creditors who were generous with their time and their ideas about welfare reform and in particular we would like to thank:
Allied International Credit
British Gas
HSBC
M&S Money
Nationwide
Provident Financial
ScottishPower
South West Water
Your Homes Newcastle

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Why should creditors be interested in welfare reform?

A significant proportion of those who seek help with debt problems at a Citizens Advice Bureau are in receipt of benefits that will be changed by welfare reform in some way. An analysis of over 65,000 debt cases dealt with by specialist Citizens Advice debt advisers funded by the Face-to-face debt advice programme in the first half of 2012 found that 54 per cent of the working age clients in the sample were claiming one or more benefits. Over 27 per cent reported that their entire household income was made up of benefits.

These clients were in serious financial difficulty. On average they each had seven debts, with outstanding balances of over £15,500, of which two were priority debts totalling more than £4,300.[3] It is clear that any change in the financial circumstances of these clients as a result of the welfare reforms cannot fail to have an impact on their creditors.

The five benefits most frequently claimed by these clients (excluding child benefit) were:

- council tax benefit (47 per cent)
- housing benefit (42 per cent)
- child tax credits (31 per cent)
- jobseeker's allowance (18 per cent)
- working tax credits (18 per cent)
- disability living allowance and attendance allowance (13 per cent) .[4]

Of these widely claimed benefits, council tax benefit, housing benefit, tax credits and disability living allowance have already been changed in some way. Means-tested jobseeker's allowance will cease to exist altogether with the roll-out of universal credit.

While it is not possible to predict the precise impact of the changes on individual clients from the information we have available, we can state with confidence that the benefits which so many of our debt clients – creditors' customers – rely on are changing, many of them significantly.

The cumulative impact of welfare reform

As we show in sections 2 and 3, many of the changes will result in some people receiving a drop in household income while others may find it more difficult to manage their budget as a result of a change to the way in which their benefits are paid. Some people will merely need some breathing space while they adjust to their change in circumstances, others will need longer term support.

3. Priority debts are those where the ultimate sanction for non-payment is loss of home, liberty, essential services or essential goods on hire purchase.
4. These benefits are intended to meet the additional care or supervision needs (and possibly mobility needs for disability living allowance recipients) for severely disabled people. Attendance allowance is for disabled people who need care or supervision after their 65th birthday and does not include any help with mobility needs.

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The Government is yet to publish an official impact assessment of the combined effect of the changes, making it difficult to assess the overall impact on household incomes. In practice, the ability of the household to absorb any reduction in income is likely to vary according to their circumstances.

The combination of multiple changes over many years and the harsher benefits regime are likely to have far reaching effects on clients – especially more vulnerable clients – and leave some with multiple benefit problems. As a manager responsible for a team collecting payments commented at one of our focus groups, "Some people may be hit more than once, especially if they are social tenants and disabled. For them welfare reform could be wave after wave of disasters".

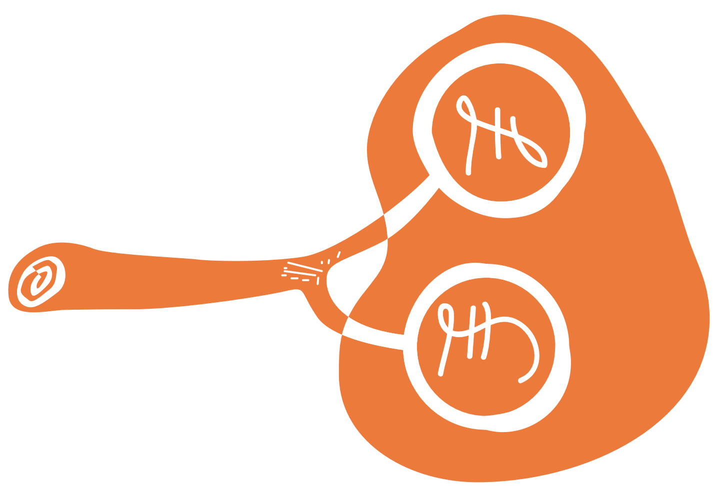
A woman sought debt advice from a CAB in London in June 2013. She rented a three bedroom council property but lived alone.

- Her housing benefit had been reduced from April as a result of the 'bedroom tax' and she had accumulated rent arrears of over £200 as a result.
- She had received a notice of seeking possession dated May 2013, which stated that the council would commence court proceedings to begin in June. The client was invited to an appointment to discuss her arrears but she was unable to attend as it clashed with her work programme class (failure to attend that could have resulted in her benefits being sanctioned).
- She contacted the housing office and had left messages but was not called back. She had previously received income support due to sickness, but after she had been found fit for work, she had applied for jobseeker's allowance. She had already been sanctioned for four weeks for failing to apply for enough jobs.
- She was then told by a Jobcentre Plus staff member to reapply for employment and support allowance (ESA) as she had a pre-surgery appointment for serious surgery the following week (and so was no longer a jobseeker). Her GP had written her a sick note and believed that she should not be working. The client had tried to apply for ESA and had been told that the forms were in the post to her.

- She had no income at the time she sought advice and was falling behind on bills. She had telephoned the ESA benefit telephone line to ask for emergency funds and was told that the crisis loans no longer existed and no help was available until she filled in the ESA forms.

Creditors who want to help their customers to sustain a payment arrangement will need to take into account the particular circumstances of their customers and adjust their approach accordingly. Some customers will find that they do not always have enough income to manage all of their commitments every month. In these cases it will be to the advantage of both the customer and the creditor if the creditor is flexible, takes the circumstances of the customer into account and makes adjustments to payment plans where necessary.

In order for creditors to take proactive steps towards supporting their customers through these changes and maintain high standards in debt collection it is essential that they understand more about how welfare reform will affect their customers' circumstances and their ability to meet their financial commitments. The following two sections will take a closer look at some of the key reforms that are already having an impact on their customers as well as those that are still to come.



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What effect are the welfare reforms already having on customers?

Some reforms have already been implemented and bureaux and creditors report that they are already dealing with people whose circumstances have changed as a result. In this section we look at some of these changes in more detail and discuss the likely impact on people in receipt of these benefits and their creditors.

In particular, we consider:

- **the reduction in support for housing costs and council tax**
- **reducing income levels**
- **changes to conditionality and sanctions**
- **changes to support for sick and disabled people.**

The reduction in support for housing costs and council tax

There have been a series of changes which reduce the amount of support for rent and council tax payments.

The most infamous of these is a penalty of up to 25 per cent of a household's housing benefit for social tenants who are considered to be 'under-occupying their home'[5]. This policy has been dubbed the 'bedroom tax' by some commentators. Overall the changes will affect an estimated 660,000 people with an estimated average reduction of £14 per week.

Other reforms having an impact on priority payments include:

- capping benefits for private tenants at 30 per cent of average rent and other reductions
- from 1 January 2012 housing benefit for most people under 35 who are single and have no dependent children have been limited to a maximum of the rent for a single room with shared facilities
- the abolition of a national council tax benefit accompanied by a cut of 10 per cent in UK Government support for council tax support. From April 2013, local authorities in England became responsible for setting up and administering their own council tax reduction scheme. Each local council has set their own criteria as to who is eligible for council tax reduction and how much discount they receive.

  Most local authorities in England now require all council tax reduction claimants of working age to pay something towards their council tax. In Scotland, there is a national council tax support scheme.

  In Wales, each local authority can set and administer their own council tax reduction scheme, but for the financial year 2013/14, the Welsh Government has provided additional funding to local authorities in Wales to return the council tax support budget to the level it was before the UK Government implemented its austerity measures.

5. For more information see https://www.gov.uk/government/news/housing-benefit-reform-removal-of-the-spare-room-subsidy-fact-sheet

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Citizens Advice Bureaux report that they are already seeing people who have reached financial crisis as a result of these changes. For example:

A CAB in the North of England reported the case of a woman who was claiming employment and support allowance at £71.70 per week. As a result of the 'bedroom tax' she had to make a weekly contribution of over £23 towards her rent and changes to council tax support required her to contribute over £3 towards her council tax. These additional expenses were causing her significant financial hardship and she had less than £20 per week for food and housekeeping. Her daughter was paying for her telephone and travel expenses as the client could no longer afford to do so. She also could not continue to make repayments to her creditors for her bank loan and credit card debt. She was hoping to apply for a debt relief order. Insolvency seemed an extreme measure for relatively small debts but she simply could not afford to repay them.

A woman visited a London CAB for advice. She lived alone in a two bed council house and was finding it difficult to manage since April 2013 as her housing benefit had been reduced by the 'bedroom tax'. She had applied to be re-housed into a one bedroom flat, but had not been successful. She worked part-time, but was finding it difficult to get additional hours. She had various debts – including fuel, a tax credit overpayment, an overdraft and a catalogue debt. The 'bedroom tax' meant she could no longer afford to pay any creditors because the money she had been using for this purpose was now going towards paying for the shortfall in her rent.

An unemployed single woman visited her local CAB in Wales in August 2013. She had lived in the same home for over 10 years – a two bedroom property rented from a social landlord. As a result of the 'bedroom tax' her housing benefit entitlement was reduced by 14 per cent from April leaving her with a rent shortfall of over £11 per week. She was receiving approximately £104 jobseeker's allowance per fortnight as deductions were made from her benefit for water arrears and a social fund loan. The bureau was concerned to find that the client would find it difficult to pay the shortfall on her rent each week unless she made sacrifices on essentials such as food.

The reduction in support for people in crisis

In addition to these changes, in April 2013 the Department for Work and Pensions (DWP) stopped providing crisis loans and community care grants to help people cope in a crisis and for lumpy expenditure. In England support is now provided at the discretion of the local authority (there are national schemes in Wales and in Scotland). The overall budget has been reduced and local authorities are not required to ring-fence any allocation for this purpose. This reduction in support for people in crisis partly explains a marked increase in enquiries to bureaux in England and Wales about food banks – a 78 per cent increase in the six months leading up to August this year.

Customers affected by these changes therefore need their creditors to take a realistic and flexible approach. The following example outlines a fictional, though realistic, case of a debt client affected by these changes. The client is a single person in receipt of income-based employment and support allowance (ESA), housing benefit and council tax benefit living in a two bedroom flat. Their monthly income and expenditure and creditors are as follows:

Financial statement before April 2013

Monthly income	£ Amount
Employment and support allowance	429.65
Housing benefit	485.33
Council tax benefit	78.00
Monthly total income	**992.98**

Monthly expenditure	£ Amount
Rent	485.33
Council tax	78.00
Gas	43.33
Electricity	34.67
Water	20.00
TV licence	12.08
Phone	10.00
Housekeeping	197.17
Total monthly expenditure	**880.58**
Total monthly income available for creditors	**112.40**
Total for non-priority creditors	**60.73**

Priority debts	£ Owed	Offer
Council tax arrears	300.00	30.00
Fine	200.00	21.67
Total priority debts	**500.00**	**51.67**

Non-priority debts	£ Owed	Offer
Overdraft	1,400.00	50.01
Home credit loan	300.00	10.72
Total non-priority debts	**1,700.00**	**60.73**

Financial statement after April 2013

Monthly income	£ Amount
Employment and support allowance	433.98
Housing benefit	417.39
Council tax benefit	62.40
Monthly total income	**913.77**

Monthly expenditure	£ Amount
Rent	485.33
Council tax	78.00
Gas	43.33
Electricity	34.67
Water	20.00
TV licence	12.08
Phone	10.00
Housekeeping	176.69
Total monthly expenditure	**860.10**
Total monthly income available for creditors	**51.67**
Total for non-priority creditors	**2.00**

Priority debts	£ Owed	Offer
Council tax arrears	300.00	30.00
Fine	200.00	21.67
Total priority debts	**500.00**	**51.67**

Non-priority debts	£ Owed	Offer
Overdraft	1,400.00	1.00
Home credit loan	300.00	1.00
Total non-priority debts	**1,700.00**	**2.00**

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In the first financial statement the client had looked at their income and expenditure with an adviser, rebalanced their budget and managed to find a substantial amount to pay to all their creditors.

The second statement looks at how the 'bedroom tax' and a 20 per cent council tax contribution would affect this client's budget from April 2013. Although their ESA has been uprated, their housing benefit and council tax support has been reduced and they have had to cut their housekeeping budget to pay their priority creditors. There is no money for non-priority creditors. When the client transfers to universal credit they could also be asked to pay considerably more each month for their magistrates' court fine if it has not been paid back by then.

Priority creditors – such as local authority council tax departments, landlords and energy companies – have significantly greater powers than others to recover money owed to them. Debts can escalate quickly in these circumstances as the enforcement process proceeds. These welfare changes are therefore particularly important for claimants and their creditors.

Sanctions

There are a number of conditions and requirements related to receiving particular benefits. These rules may require, for example, a jobseeker's allowance claimant to:

- look for a certain number of jobs each week
- spend a certain amount of time looking for work
- attend a meeting at the Jobcentre
- apply for a specific job
- accept a specific offer of employment.

Different levels of conditionality apply to different benefit types. If there is a failure to comply with these rules a claimant may receive a 'sanction' which is usually the stopping of the payment of their core benefit (jobseeker's allowance, income support or employment and support allowance) for a period of time.

In late 2012 the DWP changed the sanctions system for claimants of jobseeker's allowance and most claimants of employment and support allowance. For claimants of jobseeker's allowance the minimum sanction period increased from one week to four weeks. For employment and support allowance claimants the amount of their benefit which could be sanctioned was increased significantly to the full amount of the basic rate (£71.70).

The following cases show the impact of sanctions on people's financial situation:

> A man sought advice from a CAB in the North of England in June 2012. His employment and support allowance had been sanctioned because he had not attended a work capability assessment. The client told the bureau that he had not received a letter inviting him to the work capability assessment as he was living with family at the time because of his illness, and his inability to keep his flat warm enough. During the period that his benefits were stopped he had built up arrears on his council tax and his TV licence, and he had a small amount of mortgage arrears.

> An unemployed man attended his local CAB in Central England in July 2013. His jobseeker's allowance had been sanctioned in June as he was late for an appointment. The client told the bureau that he had not received any income since then and wanted to know if he could get a food voucher. The client had previously had deductions from his jobseeker's allowance to repay water rates, a magistrates court fine and council tax arrears. The council tax department had threatened to send bailiffs in for non-payment of council tax arrears. The client also mentioned his housing benefit had been reduced by around £25 per week due to the under occupancy of his property.

For customers who are struggling to manage payment arrangements with creditors, receiving a benefit sanction can significantly increase their difficulties. There is a danger that people in this situation may not know that they have options and so do not seek advice from agencies or talk directly to their creditors, and thus slip into deeper financial crises.

Reducing income levels

The largest long-term cut to benefit payment levels in the welfare reform programme is perhaps the least visible: a shrinking of annual increases to benefits intended to reduce the overall bill by £9 billion. From 2011, increases have been based on the consumer price index rather than the retail price index, and then in his 2012 Autumn Briefing the Chancellor announced that from April 2013 most benefits would be uprated at a

maximum of one per cent for the next three years. Together with changes to the tax credits regime expected to save £5.2 billion, this makes up more than half of the reduction to the benefit bill.

In our focus group discussions, creditors have already identified the squeeze on household incomes as a cause of debt. For example:

- A senior manager reported that that there were more customers moving onto benefits without a reasonable prospect of clearing debts. Some of these customers were being considered for debt write-offs.
- A supervisor involved in collecting debts said that there was simply going to be less money that creditors could collect, and that creditors would have to do more checks and be careful not to take income that was needed for essentials such as rent.
- One experienced agent in a call centre team told us that recently more people – and especially those on benefits – had been getting into debt without a single event or crisis. With the cost of living rising, benefits incomes are just not enough to live on.

A report for the Local Government Association assessing the impact of welfare reform found that the effect will be to reduce household income by £1 for every £7 of income for households receiving benefit income and that these reforms would fall more heavily on working households.[6]

The link between long-term reliance on benefits and debt problems for low income families is well established.[7] We anticipate that this problem will become more entrenched over the next two or three years, and that creditors are likely to find that customers who were previously on the brink of financial difficulty – but just about managing to pay their bills on time – are tipped over the edge into financial difficulty. Similarly, customers who were already in financial difficulty but maintaining an agreed repayment plan may need to renegotiate arrangements based on their adjusted household income.

Some claimants will also be affected by the benefit cap, a measure designed to ensure that being in work will always pay. The cap sets an upper limit on the amount of benefit a household can receive: £350 per week for a single adult with no children and £500 per week for a couple or lone parent, regardless of the number of children they have.[8] In July 2012 the Government expected that 56,000 people would be affected and that on average affected households will lose £93 per week. Initially the cut will fall on the housing benefit payments of affected people.[9] In April 2013, the estimate of the number of households that would be affected was reduced to 40,000[10].

Changes in support for sick and disabled people

Three key changes to benefits for disabled people may result in a reduction in the amount of support received:

6. T Wilson, G Morgan, A Rahman, L Vaid: *The local impacts of welfare reform,* Local Government Association and Centre for Economic and Social Inclusion, August 2013. http://www.local.gov.uk/c/document_library/get_file?uuid=4008e232-4afe-43f2-ad02-bf2eee18a346&groupId=10180
7. *Credit and debt in low-income families,* Joseph Rowntree Foundation, 2012, downloaded 04/07/2012. http://www.jrf.org.uk/sites/files/jrf/credit-debt-low-incomes-full.pdf
8. For more information on the benefits cap and which benefits are included see: https://www.gov.uk/benefit-cap
9. *Benefit Cap (Housing Benefit) Regulations 2012: Impact assessment for the benefit cap,* DWP, 2012. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220178/benefit-cap-wr2011-ia.pdf
10. *Ad hoc statistics on Households identified as potentially impacted by the benefit cap,* DWP. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223253/Ben_Cap_Updated_Estimate.pdf

Personal independence payment (PIP)

The personal independence payment (PIP) is being phased in from April 2013, to replace disability living allowance (DLA) by 2017. These benefits provide support to severely disabled people of working age who have care, supervision or mobility needs. The Government's impact assessment estimates that by the time the change is complete, over 600,000 fewer people will qualify for PIP than would have qualified for DLA. Most people currently on DLA will see no change before October 2015. However, if their condition changes or their award needs to be renewed, then they will be assessed for PIP from October 2013. This reassessment could result in an increase, decrease, or no change in the amount of money they receive. If the disabled person loses their DLA at this point and is not awarded PIP, then any carer will lose their carer's allowance and the household may become liable for the under-occupancy charge and the benefit cap.

Employment and support allowance (ESA)

People who are unable to work because of an illness or disability are entitled to claim ESA either because they have paid sufficient national insurance contribution or on grounds of their income. From April 2012, the Government now restricts the payment of contribution-based ESA to a year for all but the most severely disabled people. If their income is low enough, they will be able to claim income-based (or means-tested) ESA instead, but many people will find themselves just the wrong side of the income line. This cut will affect about 700,000 people. Those who are eligible to claim income-based ESA will lose on average £36 per week after they cease to be eligible for contribution-based ESA, while those who are not eligible for income-based ESA will lose £100 per week[11].

> In August 2013, a 56 year old man sought advice from his local CAB in Wales about the financial difficulties he and his wife were experiencing as his entitlement to contribution-based ESA had ended in June after a year. Although both he and his wife received occupational pensions and DLA, they were finding it difficult to manage after the loss of £122 per week. They had only been able to pay the mortgage for the last two months by borrowing from family.

Universal credit and additional support for disabled people

People who currently receive assistance for meeting the additional costs of living with a disability will also be affected by changes to the support they receive when universal credit is introduced. See section 3 for more information on the changes still to come.

11. *Time limiting contributory employment and support allowance to one year for those in the work-related activity group: Equality impact assessment,* DWP, 2011. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220156/eia-esa-time-limit-wr2011.pdf

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What's still to come?

The changes are still far from complete. Universal credit – a key element of the reforms – is yet to be rolled out beyond pilot 'pathfinder' schemes. This section examines universal credit in more detail and considers which aspects may prove problematic for some claimants and their creditors. In particular:

- **the payment of universal credit in a single monthly payment**
- **the payment of universal credit to one bank account per household (family) claim**
- **the payment of the housing element of universal credit to the claimant rather than the landlord**
- **the lack of an easy way to distinguish which elements of universal credit a household is receiving, for example which are for housing, living, children or caring responsibilities.**

What is universal credit?

Universal credit is the flagship element of the welfare reforms which will see six of the main working age benefits replaced with one monthly payment.[12] It is an in and out of work benefit. The Government hopes that this simplified benefit will help to ease the transition from benefits to work. Universal credit is currently being piloted in 'pathfinder' projects, and will be gradually phased in across the country. The roll-out is due to be competed by 2017.

Citizens Advice welcomes many of the aims of universal credit, including the intention to simplify the system and to improve the rates at which benefits are tapered relative to earnings. However, we are not convinced that the policy – as currently designed – achieves these aims. We are also concerned that some aspects of universal credit will present significant budgeting and financial capability challenges for many claimants.

Monthly payments – a financial capability headache?

The switch to monthly benefit payments was one of the changes which the creditors who took part in our focus group were most concerned about. The rationale behind this move is to make being in receipt of benefits mirror being in employment as far as possible and ease the transition into work.

The point was made by creditors in our focus groups that many household expenses – such as mobile telephone and utility bills and loan repayments – are most commonly paid monthly, and having one single monthly payment may make juggling these payments easier.[13] Monthly payments may be an opportunity to reduce the 'poverty premium' and allow some consumers to access better deals or move onto cheaper, more convenient payment arrangements such as direct debits.

12. Universal credit will replace income-based jobseeker's allowance, income-related employment support allowance, income support, child tax credits, working tax credits and housing benefit.

13. *Sink or Swim?* The impact of the Universal Credit, Social Market Foundation, September 2012. http://www.smf.co.uk/files/1913/4779/2202/20120916_Sink_or_Swim_web_ready2.pdf

On the other hand some participants noted that they already receive calls from customers who have run out of money part way through their payment cycle and are therefore unable to make their payment on time. There was agreement that this difficulty was likely to be exacerbated for some customers as a result of the transition to monthly payments. For example, one participant said that they had skilled staff in their branches but that it will be very hard to do a budget planner with someone with very little or no money left with three weeks to wait until their next benefit payment.

Citizens Advice recently conducted a study to examine the transition to universal credit, and found that most people felt that they would struggle to budget with monthly rather than weekly payments.[14]

The study found that:

- 50 per cent of CAB clients were identified as 'universal credit relevant'[15]
- of these, only eight per cent presented as ready for universal credit without further help
- of the 92 per cent of respondents who said they needed further help, 73 per cent respondents did not feel ready for monthly budgeting
- 85 per cent of clients need help in more than one of the five capability areas and 39 per cent needed help across all five areas.[16]

An earlier study conducted for the Social Market Foundation reported that participants were more likely to run out of money under a monthly payment because budgeting their income over 30 days would be more difficult than budgeting over seven days. They also felt more confident that when money is tight it would be easier to cope until their next pay date if they were paid on a weekly rather than monthly basis.[17]

The single payment – a passport to confusion?

The payment of universal credit in a single sum each month will also make it more difficult for claimants, creditors and support services to quickly and simply identify which elements of universal credit the individual is receiving, and the proportion of the monthly payment each element makes up.

Currently, entitlement to some means-tested benefits is used to determine entitlement for additional help – people on these benefits may be 'passported' to entitlement to free school meals for their children, or free prescriptions.[18] Similarly, energy suppliers base their eligibility criteria for the broader group of recipients of the warm home discount on being in receipt of particular benefits. The unitary monthly payment of universal credit, with no easy way to establish which elements make up the payment, will make it more difficult to set eligibility criteria for these additional services.

14. *9 out of 10 Citizens Advice clients are not ready for universal credit,* Citizens Advice, July 2013. http://www.citizensadvice.org.uk/index/policy/policy_publications/er_benefitsandtaxcredits/universal_credit_managing_migration.htm
15. Clients who were in receipt of benefits which will transfer to universal credit were identified as 'universal credit relevant'.
16. The five areas tested were; monthly payments; budgeting; banking; staying informed, and; getting online.
17. *Sink or Swim? The impact of the Universal Credit,* Social Market Foundation, September 2012. http://www.smf.co.uk/files/1913/4779/2202/20120916_Sink_or_Swim_web_ready2.pdf
18. Qualifying benefits are income support, income-based job seekers allowance, income-related employment and support allowance, the guaranteed element of state pension credit and some recipients of child tax credits.

In addition, many of the creditors we spoke to told us that not being able to easily distinguish which elements make up the customer's universal credit payment could make it more difficult for them to understand a customer's income. For instance, when exercising the right of set-off a bank account provider should not appropriate funds that are provided by a government department for a specific purpose, or are needed by the customer to cover their essential costs of their subsistence.[19]

Payments to one nominated member of the household

Each household will receive their universal credit payment in one monthly payment to a nominated member of the household. A household is defined as an interdependent group, for example an adult or couple with dependent children. The group do not necessarily have to be living together to be counted as a household and one dwelling may contain more than one household, for example houses of multiple occupancy. For some households this will be a considerable change to the way in which money is currently received and dealt with within the household and may lead to a shift in power balance and family dynamic.

In some cases this could be a real cause for concern. For example, Women's Aid – a charity which supports and coordinates a network of local specialist domestic and sexual violence organisations – has raised the prospect that the payment of the whole monthly benefit allowance to one person will provide greater incentive and opportunity for a controlling partner to misuse the household finances in households where domestic abuse is present, creating greater scope for financial abuse.[20]

Other causes for concern include cases where one member of the household has a substance or gambling addiction. In these situations the desirability of providing these individuals with a large lump sum payment each month designed to cover the rent and other essential expenditure for an entire household is questionable.

It is important to understand that for some households the move to single payments will expose some household members to a sharply increased risk of vulnerability. Under traditional arrangements some creditors allow short holding periods for a client to clarify issues or explain their benefit income. It is especially important that customers are offered appropriate support, and are treated sensitively if problems with the single payment arise.

19. *Banking: Code of Business Sourcebook* 5.1.3A, FCA, 2013.

20. *Briefing: Comments on Universal Credit personal budgeting support guidance,* Women's Aid, March 2013. http://www.womensaid.org.uk/core/core_picker/download.asp?id=3912

3

Making individuals responsible for passing on housing benefit payments to their landlords

Under universal credit all claimants will be responsible for paying their own rent to their landlord irrespective of their tenancy type. For some claimants this will be an entirely new responsibility.

While many claimants will manage this transition with relative ease, experience from the six areas in which the new payment arrangements were trialled raises serious concerns about those who do not. The average collection rate in the first four months stood at 92 per cent of the £7,692,844 total rent payable, leading to rental arrears of more than £615,000. By the end of the pilot 316 households had been switched back to direct payments to landlords as they were not managing the change well.[21]

The impact of this change is unlikely to be restricted to social landlords and their agents. Where a tenant struggles to adapt to the direct payment of housing costs, perhaps alongside the shift to monthly payments and a reduction in the amount of housing support they receive due to the under-occupancy penalty, there is likely to be a knock-on effect for other creditors. This will result from the introduction of a housing provider or their agent as an additional priority creditor competing for payment from an ever decreasing pot.

Given that non-payment of rent can result in homelessness, responsible debt collection from all creditors will be essential to ensure that available income is divided fairly according to priority. This will avoid a situation where the creditor who 'shouts the loudest' secures agreement for an unsustainable repayment plan which could have a devastating impact on the debtor, including eviction from their home.

21. *Direct Payment Demonstration Project: Payment figures,* DWP, December 2012. http://www.dwp.gov.uk/docs/direct-payment-demo-figures.pdf

Supporting people through the transition

The Government has acknowledged that the changes to the way in which benefits are claimed and paid under universal credit will pose significant challenges to some claimants. The DWP is developing a Local Support Services Framework (LSSF) which will be in place before full roll-out of universal credit. The LSSF will provide a blueprint for local authorities to identify which claimants may need support and the types of support services local authorities should consider providing. The framework also recommends developing local partnerships to deliver these services in a cost effective, efficient way. Services likely to be available include:

- assisting people to manage their claim online
- money advice
- temporary alternative payment arrangements in cases where the individual would particularly struggle to adapt to the new payment arrangements.

Third party deductions under universal credit

The benefits system will continue to allow for direct payments to creditors for some types of debt. Under the old rules deductions for debts were capped at 25 per cent of the single person's personal allowance for the benefit in question. Under universal credit benefits will be paid to the household rather than the individual, and up to 40 per cent of a household's standard allowance can be taken at source for direct deductions.[22]

Each eligible creditor who makes a deduction will receive the equivalent of five per cent of the household's universal credit standard allowance. The deduction rates for benefit debts and fines varies. If the number of direct deductions which could be attached to a household's income would exceed 40 per cent of the household's standard allowance, the creditors ranked higher up the priority order will be allowed to put a deduction in place until the limit is reached.

Gas, electricity and water companies who are making a deduction for the payment of arrears may also make a deduction for ongoing consumption. However, once the arrears are cleared, the deductions for arrears and ongoing consumption will both cease.

The increase in the size of benefit deductions may ensure that some debt repayments are maintained and this may in turn protect some claimants from enforcement action and from losing essential services. However the larger payments may in some cases result in greater hardship and further reduce available income for debts that cannot be attached. There is a risk that as benefit incomes reduce and deductions increase, more clients will become vulnerable to the impact of juggling debts, third party deductions and enforcement measures.

22. The standard allowance refers to the amount a person will receive when they claim universal credit due to unemployment or inability to work due to illness/disability or caring responsibilities. This is the equivalent to the personal allowance currently in place for income-based jobseeker's allowance, income support and income-based employment and support allowance. The amount of standard allowance is determined by household type, for example, by age, by cohabiting status, or parental status. Additional elements, for example to cover child care costs, caring for a severely disabled person and housing costs, may be added to the standard allowance as eligible to make up the household's monthly universal credit payment. Depending on the type of claim some households will not receive the standard amount, but may still qualify for other elements of universal credit such as housing costs.

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Universal credit and additional support for disabled people

The benefits system previously provided payments for people who are disabled, depending on their circumstances, to assist with the additional living costs associated with the disability. Claimants with a disabled child, or a severe disability and no carer, or who work and have a disability might receive additional support. When they are transferred to universal credit, these benefits will change in the following ways:

- approximately 100,000 families that include a disabled child will have a disability premium cut from £57 a week to £38
- approximately 230,000 severely disabled people who do not have a carer will lose the severe disability premium – at least £28 a week
- over 110,000 households now receive the £54 a week disability element of working tax credit – a payment to support disabled people in work. Under universal credit additional support for disabled people is only available to claimants who pass a test showing that they are not fully-fit for work.

When we discussed welfare reform with creditors, these changes were often regarded as technical and difficult to understand, and their extent less well understood. But they amount to a considerable drop in household income. Creditors need to be aware of the daunting changes that some of their customers are facing, to work hard to understand their needs and arrange suitable, affordable, repayment plans should they face financial difficulty.[23]

23. *Disability and universal credit,* Citizens Advice, 2012.

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What can creditors do to support customers through these changes?

The number and scale of these changes may seem daunting. However, we think that there are practical steps that creditors can take to help support their customers through these changes while maintaining high standards of debt collection. In this section we have drawn on the knowledge and experience of the Citizens Advice service, along with the knowledge and experiences of the creditors who took part in our focus groups to outline some of the steps that we believe creditors should consider taking.

The first part of this section outlines steps suitable for all creditors. The second section takes a closer look at the additional support energy and water companies can provide.

Understand customers' problems

Citizens Advice Bureaux advisers report that they are increasingly seeing clients who are embarrassed and uncomfortable discussing benefits with their adviser. Clients are now more likely, for example, to tell their adviser that they are not 'scroungers' or explain that they don't want to claim benefits but have no other option than they were previously. Advisers also report that clients often do not understand why their benefits have been stopped or changed, or what they are entitled to claim.

Creditors report similar experiences, telling us that they are sometimes required to have more 'difficult conversations' with their customers as the benefit changes take effect. Social landlords, for example, are in the unenviable position of asking some tenants affected by the under-occupancy penalty for rent payments that they know some of their customers just can't afford. They say that it is changing their relationship with their tenants. A very small but noticeable minority of tenants react with anger to the benefit changes and rent increases, and some tenants who cannot see how to make cuts to their personal expenditure to make up gaps in rent can be very hard to engage with.

Staff from two creditors told us they were expecting that engagement from customers in financial difficulty would decrease as welfare reform proceeded, and that they needed to look at what they could do to help customers who were not going to be able to pay in full.

These factors present multiple challenges to creditors who want to promote engagement with their customers so that they can treat them fairly.

Most of the collections staff we talked to had not had any training in dealing with benefits. Staff at these organisations told us that they relied on personal knowledge of benefits, or more experienced colleagues. Some of them said that they would like training on benefits issues, and/or to have access to staff who were knowledgeable on benefits.

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In contrast, one company had organised benefits training for its agents – run by Citizens Advice – and had a clear referral process for people struggling with debt and benefit issues. This organisation was very clear that it could not help customers with complex benefit issues, but that it could identify them and suggest organisations who could help. We welcome the approach that this company has taken.

We recognise that it is neither practical or necessary for all frontline debt collection agents to be experts in all aspects of welfare reform. However, it is essential that these members of staff receive some training in the basics of welfare reform so that they feel confident that they can anticipate and identify some of the issues their customers may be facing and take the appropriate steps to offer support where necessary.

Creditors could take the following steps to foster a positive organisational culture and encourage positive engagement with their customers:

- **Use points of communication** – such as websites and letters – to reassure customers that they will be offered support and treated fairly if they get in touch to discuss their circumstances.
- Organise **benefits and debt awareness training** for agents. Encourage them to gain an understanding of customers' experiences of the benefit system, and to be empathetic and engage appropriately with the customer's problems.

  This training does not have to be detailed – it is best to keep the information simple. This knowledge can always be topped up from time to time with simple benefit updates.
- Develop **benefits champions** within the vulnerable customers, collections and recoveries teams.

  Collections staff at several companies told us they would welcome having colleagues with more detailed knowledge of the benefit system to whom they could turn to discuss benefits issues, and who could provide brief, clear updates on what customers who use the benefits system are experiencing. This would mitigate the risk of staff using common sense or information gleaned on the job to understand benefits issues. As universal credit is rolled out the new, old and transitional systems will co-exist, and the systems are going to keep changing and will be more challenging to understand.

They would need to have had some training, have some time to keep themselves up-to-date on benefits issues so that they would know what was changing, what was out of scope for their organisation and which organisations can be signposted to for additional support.

- **Reward staff** who are skilled at identifying and assisting customers who need help with their benefits.

  Creditors who have implemented similar policies report that rewarding staff in this way has led to more successful outcomes from contacts with customers in financial difficulty. This will become even more crucial, and the potential benefits to creditors for getting this right will become more pronounced, as customers adapt to the new benefit regime.

Be proactive, forbear and refer

Customers affected by a temporary disruption to their income will need their creditors to be understanding and help them through the disruption and prevent the relationship breaking down.

While many people will manage the transition to universal credit without support, some will need time to adjust to the new features of universal credit and others will need longer term support. Creditors can play a significant part in identifying customers who are struggling to manage the transition, and signposting customers for support, whether that be internal support mechanisms or external advice agencies like Citizens Advice Bureaux.

Both the customer and the creditor will benefit from creditors *being proactive, forbearing* and *referring* as appropriate. The customer may be helped to avoid falling into a cycle of debt, financial difficulty and despair while the company will benefit from customers that are better able to meet their financial commitments in the long term as well as creating happier, more loyal customers who may prove profitable in the longer term.

We therefore recommend that creditors take the following steps to support their customers through the welfare changes in order to minimise the negative impact customers and business:

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Be proactive

If a customer is currently in receipt of benefits and creditors begin to see **unusual activity** on the account which suggests that the customer may be in financial difficulty, creditors should be proactive and contact the customer to **find out if they need support.**

Similarly, if a customer gets in touch to say that they cannot afford to pay their bill this month or that they need to renegotiate their repayment plan, questions should be asked to **explore the reasons behind the change in circumstances.**

Triggers to look out for include requests to:

- cancel direct debits or standing orders
- increase credit limits
- change the payment date
- take payment holidays
- take out consolidation loans
- change in payment dates.

Creditors should also look out for customers on the telephone or in branches struggling to understand or explain their benefit income.

Forbear

It is likely that a significant proportion of customers will experience some difficulty during the **immediate** period when their benefits are changing, for example when they are moved to universal credit – particularly during the month when they are waiting to receive their first monthly universal credit payment. Creditors should exercise additional forbearance while their customers undergo the transition to universal credit.

Appropriate steps could include:

a) waiving bounced direct debit and late payment fees

b) renegotiating lower repayment instalment, or

c) holding off on enforcement action until the customer is back on a more stable financial footing, and

d) moratoriums or payment holidays for the period that benefits are sanctioned or reduced pending an appeal.

Other people will experience a **permanent** drop in income or may struggle to adapt to the new payment arrangements for universal credit over an extended period of time.

In these circumstances appropriate steps could include rescheduling of loans or payment arrangements, using the Common Financial Statement to assess what can be afforded.

If a customer can not afford more than minimum repayments, or no repayment at all, and has no reasonable prospect of improving their circumstances, non-priority creditors should also consider writing the debt off. Pursuing customers who have no real means of ever repaying a debt is ultimately a waste of your resources, as well as distressing for the customer.

Refer

If a customer has wider advice needs that are not being met they are unlikely to be able to commit to and maintain a sustainable repayment arrangement. Where agents identify that a customer has wider support needs that cannot be met within the business they should be trained to refer on to appropriate advice organisation or support service who can offer **free, impartial advice and support.**

In order to facilitate this, creditors should consider **training frontline agents to identify key triggers** which may suggest that a customer may need additional support. Possible triggers include:

- the customer has unmanageable debts with the same organisation
- the customer has multiple creditors
- the customer mentions that they are having a problem with their benefits or with managing their benefit income
- the customer mentions having problems with family, legal, housing or employment issues related to debt problems.

To make this process as smooth and easy to use as possible for both the customer and agents, creditors should also consider developing **simple, easy to use ways for staff to refer the customer on** to organisations such as the Citizens Advice service and other agencies for further advice and support with benefit issues.

4

Influence

Citizens Advice supports the aims of universal credit to simplify the benefits system and make work pay. However, we share concerns with many creditors about how people will cope under the new system without the right support and how the transition to single monthly payments to a single member of the household will impact on people's ability to manage their money. Because the reforms are extremely complex and far ranging, it is essential that organisations work together to influence the roll-out of these reforms so that they are as successful as possible and do not have negative unintended consequences on claimants. For example, many of the creditors we spoke to were concerned about the effects of moving to monthly benefit payments and the payment of benefit in one monthly sum with no clear indication of which elements make up that payment. We share these concerns.

Citizens Advice is calling on the Government to allow people to have a choice about how they receive their benefits and to ensure that people who will struggle to adapt to the changes are given the support that they need. We would like creditors to work with us to identify shared concerns and influence the Government in these areas to ensure that the roll-out of universal credit is a success for all involved.

Steps that utility companies can take to identify customers in difficulty and ensure that they are accessing all of the support they are entitled to

Gas, electricity and water are essential services which consumers cannot live without. The sharp rise in energy prices in recent years has put increasing pressure on already stretched household budgets.[24] In 2012/13 Citizens Advice received 92,000 enquiries about fuel debt. We dealt with a further 89,000 enquiries about water and sewerage debt in the same period. This existing trend – coupled with the impacts of the welfare reforms outlined in earlier sections – makes it particularly important that utility companies use all of the data and intelligence at their disposal to identify customers who are experiencing financial difficulty throughout the transition to universal credit and/or as a result of the wider welfare reforms. Failure to do so could result in the build-up of significant arrears and – in the case of gas and electricity arrears – eventual disconnection of supply.

24. Between 2007 and 2012 the average combined gas and electricity bill has grown by nearly £400. *Quarterly energy prices,* DECC, June 2013, p11.

While utility companies do not have access to the range of data available as some creditors, such as banks, there are some simple signs to look out for which could indicate that a customer is experiencing financial difficulty. For example, an increase in instances of missed or part payments, or a customer calling to ask to reduce the amount of their direct debit payment or to rearrange a repayment plan are all indications that a customer may be struggling. Throughout the roll-out of universal credit it will be particularly important that frontline agents are encouraged to take extra time to explore the reasons behind the customer's circumstances and offer assistance as appropriate.

There are a number of simple ways in which an energy supplier can help the customer to manage their expenditure throughout the transition as well as their ongoing consumption:

- check that the customer is on the **cheapest tariff** for them
- **ask appropriate questions** to ascertain whether the customer may be eligible for an ECO grant to make their home more energy efficient
- establish whether the customer is receiving all of the support they are entitled to, such as the **warm home discount**
- establish whether the customer is eligible to apply to the company's charitable trust, where one exists
- ensure that their **priority service register** is up-to-date
- talk the customer through simple ways that they can reduce their consumption.

Water companies can also take additional steps to ensure that their customers are receiving all of the support that they are entitled to:

- ensure that customers who are eligible for WaterSure, or the company's social tariff are placed on these tariffs
- give customers with a metered supply tips on how to save water, for example by providing reduce flow shower heads or timers
- establish whether customers in arrears are suitable candidates to apply to the company's charitable trust, where one exists.

Our aims

- To provide the advice people need for the problems they face.
- To improve the policies and practices that affect people's lives.

Our principles

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. We value diversity, promote equality and challenge discrimination.

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